

Service Date: August 14, 1991

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application of)
Northwest Telephone Systems., Inc.) UTILITY DIVISION
for Rate Design Changes Eliminating) DOCKET NO. 90.6.36
Touch-Call and Mileage Charges and) ORDER NO. 5543b
Increasing Certain Other Rates.)

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BEFORE:

Howard L. Ellis, Chairman
Bob Anderson, Commissioner
Wallace W. Mercer, Commissioner

FINDINGS OF FACT
BACKGROUND

1. Northwestern Telephone Systems, Inc. (hereafter referred to as NWTs, PTI or Pacific Telecom, Inc.) previously submitted cost of service and rate design application occurred on August 27, 1981. Assigned Docket No. 81.8.69, the Commission issued a final Order (No. 4901) on June 2, 1982. NWTs's current rate structure largely results from that order.

2. On June 1, 1990, Northwestern Telephone Systems, Inc. (NWTs or Company) filed an application with the Commission proposing to change its Local Exchange Service tariffs, including the elimination of Touchcall Service charges and recurring mileage charges.

3. On February 6, 1991, the Company filed to correct and reinstate a \$2.95 Call Waiting rate. NWTs asserts the reduction, to \$1.50, arose due to an internal misunderstanding within the Company. On March 15, 1991, the Commission approved NWTs's filing to correct the tariffed Call Waiting price, but on an interim basis. Final approval of that filing is considered in this proceeding.

4. On April 23, 1991, a procedural order was issued wherein the Commission set dates for intervention, discovery, filing of testimony and hearing on the application. A public hearing was held June 4, 1991, in Kalispell, Montana.

NORTHWESTERN TELEPHONE SYSTEM FILING

5. NWTs's initial filing proposed to eliminate Touchcall service charges and the recurring mileage charges. Elimination of these charges results in a revenue reduction of \$1,252,000.

6. The filing also proposes to realign the Extended Area Service (EAS) charge. The EAS charge allows customers to call contiguous exchanges toll free. Certain pages of the NWTs's tariff bundle EAS and Basic Exchange Access Service rates; other pages list just the Basic Exchange Access Service rates. NWTs contends that typographical and rounding errors caused inconsistencies between the implied EAS rate included in the bundled rates and the actual EAS rate. An example illustrates the problem.

7. NWTs's current tariff sheet 1.1 lists the price for Residence Two-Party Service at \$7.19. Tariff sheet 1.4 provides bundled access rates and EAS increments. Under Two-Party Service for Elmo, the price is \$8.30. This implies an EAS rate for Elmo of \$1.11 (\$8.30 less \$1.11 equals \$7.19). However, the actual EAS rate for Elmo is \$1.25. Realigning all EAS rates to their actual levels results in a positive revenue effect of \$5,000.

8. The net revenue reduction that results from the elimination of Touchcall and mileage charges and realigning the EAS rates equals \$1,247,000 (NWTs Exh. 3, att. B). NWTs's filing proposes to make these changes revenue neutral by recovering the net revenue reduction from a uniform percent increase to all basic service access rates. This percent increase is about 30

percent (NWTs Exh. 3 att. A). For a one-party residential customer within the base rate area (BRA), without Touchcall, the monthly bill increases by \$2.56. One-party business lines within the BRA will increase \$4.87 per month.

9. NWTs's filing also proposed to charge a single rate for Key System Central Office Line service and Private Branch Exchange (PBX) service. The current Key System Line price equals \$17.29, while a PBX Trunk is priced at \$24.78. NWTs proposed to price both services at \$24.60.

10. Finally, NWTs proposes to remove the Terminal Loop Charge (TLC) from the Continuous Property Off-Premise Extension Service tariff. NWTs contends this service applies to wire on the customer's side of the protector box, the so-called inside wire. As inside wire was deregulated in 1983, NWTs asserts it is not appropriate to continue this charge in the tariffs. The Company proposes to move all investment and expenses as well as revenues associated with the service to a set of accounts that is separate from the regulated accounts (Tr. p. 27-28).

TESTIMONY

11. Several NWTs witnesses submitted prefiled testimony. First, Mr. Theodore Otis testified on the merits of the proposed tariff changes. Mr. Otis asserts that "(m)ileage charges are no longer appropriate due to the evolution of the NWTs network which now relies heavily on distributed electronics." Remote switches allow customers outside the BRA to be served by loops similar in length to those loops that serve customers within the BRA. Thus, Mr. Otis contends that it does not make sense to charge customers for distance from the BRA (NWTs Exh. 3, p. 3). A NWTs late-filed exhibit, of July 1, 1991, further maintains that "rural customers are being unfairly discriminated against by the imposition of mileage charges."

12. Mr. Otis also asserts that the proposal to eliminate the Touchcall rate element results from technology advances. "Touch Call is no longer a sophisticated add on feature -- it is a basic service." (NWTs Exh. 3, p. 3) Mr. Otis asserts that digital switching technology allows NWTs to provide Touchcall at virtually no additional cost. (NWTs Exh. 3, att. A)

13. Next, NWTs's witness Mr. Bob Brown testified on the changes in the Company's regulations that would result if the filing is approved. First, four-party service is currently available to customers located outside the BRA. The filing would grandfather four-party service throughout NWTs's service area.

14. If the Commission approves of removing inside wire from the tariff, Mr. Brown asserts NWTs would then remove all expenses, investment, revenue and "everything" associated with this charge from the accounts which are rate based and put them into an account set up by the FCC. (Tr. p. 27)

15. Mr. Brown testified that the proposed EAS rate schedule is simplified. The EAS rates are proposed to become an additive charge to the basic access rate schedule.

16. Mr. Brown also testified regarding the Call Waiting tariff. He stated that the correct tariff rate is \$2.95 and that, although the rate was mistakenly reduced to \$1.50 in the tariff, the customers have always been charged \$2.95. Therefore, there would be no revenue effect as a result of the rate change.

17. At the hearing, the Montana Consumer Counsel (MCC) sponsored five public witnesses who voiced their opposition to NWTs' filing. These witnesses' opposition presented several arguments, as follows. First, Mr. James Stack argued that if one looked out over three to five years, NWTs's revenues will increase as a result of this filing. Mr. Stack claims that, due to the elimination of mileage charges, more customers will opt for single- rather than multi-party service. Thus, NWTs's filing is not revenue neutral.

18. Second, Mr. Stack asserts that since the Touchcall charge is not really being eliminated, but rather spread over all customers, NWTs' proposed elimination of the charge is deceptive. Mr. Stack added technological advances have eliminated Touchcall charges noting many kinds of business equipment that operate on pulse-dial lines while offering Touchcall features.

19. Public testimony also asserts that the rate increase business customers would receive, under NWTs' proposal, was not adequately publicized and, as a result, business customers were unaware of the impending increase they may receive.

20. MCC also sponsored the testimony of fourteen public

witnesses who support NWTs's filing. Although diverse, the comments expressed by these witnesses all favored eliminating mileage charges.

Commission's Decision

21. This order provides final decisions on all matters raised in this docket. The decisions, are in part, reached with the assumption that NWTs's July 1992 filing will contain appropriate costing and pricing analyses. The Commission's expectations on such costing and pricing analyses are described below. The Commission will first state its general reasons for finally approving NWTs's tariff proposals. This will be followed by findings on certain specific issues.

22. The Commission approves NWTs's entire filing but with the expectation that NWTs will file a thorough cost and pricing analysis in July 1992. The reasons for this approval follow. First, technological improvements have been made to NWTs's telecommunications system that justify tariff changes. The Commission finds that such improvements should not be held up by requiring NWTs to perform a complete cost and price study each time a proposed tariff change would result. In the same vein, the corrections and realignments to the existing tariffs should not be delayed due to the absence of a complete cost and price study.

23. Second, neither the Commission, NWTs or any party can assert NWTs's existing or proposed prices are best without a complete cost and pricing analysis. By complete the Commission means cost based prices for most if not all services. NWTs's filing excluded a complete cost analysis to support changing certain existing tariff prices. Absent a complete cost analysis it is not clear NWTs's pricing proposals are best.

24. Thus, NWTs is required to testify on and provide a complete cost study in July 1992. This study must cover most if not all services. The Commission is especially concerned about cost based prices for all residential and commercial local access rates. However, NWTs must also resubmit testimony on and updated cost studies for its proposal to eliminate mileage bands and touch call. Similarly, NWTs must provide cost justification for realigning its Key and PBX prices. Costs should be in mid-year

1993 dollars.

25. Some new areas the Commission finds NWTs testimony must also address are twofold. The Commission requests NWTs to address the merit of a unified base rate area. Such a concept would likely require NWTs to average the costs for each service over the entire Montana service territory; for example, a single 1-party residential rate would result. The Commission also requests NWTs to testify on the merit of a cost-based local measured service offering.

26. Third, the Commission finds that approving NWTs's filing today will allow nearly a year's experience on tariff shopping and growth. Thus, NWTs's test year in the expected July 1992 should include as much actual data, as feasible, through June ending 1992.

27. Fourth, the Commission finds merit in addressing Mr. Stack's concern over revenue impacts arising from NWTs's filing (Re: FOF 17). Mr. Stack's concern is, in part, valid and one reason the Commission finds that NWTs's filing should be approved and in place at the earliest opportunity (see FOF 25 and 26 supra). Because the Commission has an historic test year policy, NWTs' changes need to be in place as soon as possible so as to allow for the revenue impacts of tariff shopping and growth in Mr. Stack's testimony. However, even if NWTs's entire filing were denied, customer growth would occur, the revenues (and costs) of which are unreflected in current rates.

28. Mr. Stack charged that NWTs had not presented a true picture of the rate impacts of its "revenue neutral" proposal to its customers, the majority of whom will see a higher phone bill as a result of this docket.

29. The Commission notes that, for whatever reason, many more customers who currently pay mileage charges and want to see them eliminated contacted the Commission and testified at the hearing in favor of the company's proposal than did customers who opposed the proposal because of the higher rates the majority of NWTs customers will pay.

30. The Commission encourages NWTs to take steps to ensure better customer understanding of its future proposals and to include greater customer participation in their development.

31. The Commission will now provide its findings on certain detailed issues in this docket. First, NWTs's request to correct its Call Waiting tariff is finally approved (see FOF 3 supra). Second, the Commission finally approves NWTs's request to remove the terminal loop charge from the tariff -- deregulate inside wire maintenance. Third, the Commission approves NWTs's request to eliminate mileage charges and Touchcall rates. Fourth, the Commission approves NWTs's request to realign its EAS and Key System Line prices.

CONCLUSIONS OF LAW

1. Northwestern Telephone Systems, Inc. (PTI) is a public utility offering regulated telecommunications services in the State of Montana. Section 69-3-101, MCA. The Commission has authority to supervise, regulate and control public utilities. Section 69-3-102, MCA.

2. The Commission properly exercises jurisdiction over PTI's Montana operations pursuant to Title 69, Chapter 3, MCA.

3. The MPSC has provided adequate public notice of all proceedings herein and an opportunity to be heard, to all interested parties in this Docket. Section 69-3-303, MCA, and the Montana Administrative Procedure Act, Title 2, Chapter 4, MCA.

4. The rate design and rate levels approved herein are just, reasonable and nondiscriminatory. Sections 69-3-201 and 69-3-330, MCA.

ORDER

1. Pacific Telecom, Inc. is hereby GRANTED its rate design proposals in this docket.

2. Pacific Telecom, Inc.'s request to increase the tariffed price for Call Waiting service from \$1.50 to \$2.95 is approved.

3. Pacific Telecom, Inc.'s request to remove the Terminal Loop Charge from the Continuous Property Off-Premise Extension tariff is approved, and may be offered on a deregulated basis.

4. Pacific Telecom, Inc. is required to file a full general rate case including revenue requirements, cost of service and rate design on or before July 1, 1992. The filing must

include a proposal by PTI for a unified base rate area and Local Measured Service. In addition, the filing must include an updated refiling of the touch call and mileage charge cost of service studies submitted in this docket and full cost of service studies for local service rates. Cost studies must also be submitted supporting the Key and PBX prices. All costs should be in mid-year 1993 dollars.

5. In issuing this Order, the Commission is neither accepting nor rejecting the cost of service studies PTI submitted in this docket. The Commission has not analyzed the merits of those studies and will not do so until the filing of PTI's next case as required herein.

6. The Commission encourages PTI to solicit public comment and involvement in the formulation of its unified base rate area/rate design proposals.

7. Pacific Telecom, Inc. shall file compliance tariffs with staff, which shall be subject to staff approval.

8. The rates approved herein shall be effective on September 1, 1991.

DONE and DATED this 12th day of August, 1991 by a 2 - 1
vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

HOWARD L. ELLIS, Chairman

WALLACE W. "WALLY" MERCER, Commissioner

BOB ANDERSON, Commissioner
(Voting to Dissent - No Dissent Written)

ATTEST:

Ann Peck
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission
reconsider this decision. A motion to reconsider must
be filed within ten (10) days. See ARM 38.2.4806.